

State of Oklahoma



WATER RESOURCES BOARD
the water agency

**OKLAHOMA CLEAN WATER STATE REVOLVING
FUND LOAN ACCOUNT PROGRAM**

**ANNUAL FINANCIAL STATEMENTS
AS OF AND FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012
AND INDEPENDENT AUDITOR'S REPORTS**

**OKLAHOMA WATER RESOURCES BOARD
OKLAHOMA CLEAN WATER STATE REVOLVING FUND LOAN ACCOUNT PROGRAM
ANNUAL FINANCIAL REPORT
As of and for the Years Ended June 30, 2013 and 2012**

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INDEPENDENT AUDITOR'S REPORT

To the Members of the
Oklahoma Water Resources Board

Report on the Financial Statements

We have audited the accompanying financial statements of the Oklahoma Water Resources Board/Oklahoma Clean Water State Revolving Fund Loan Account Program (the "Program") as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Program as of June 30, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2013, on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.

A handwritten signature in dark ink, reading "Aledge & Associates, P.C.", written in a cursive, flowing style.

Edmond, Oklahoma
September 23, 2013

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Oklahoma Clean Water State Revolving Loan Fund Account Program's (the "Program") financial performance provides an overview of the Program's financial activities for the fiscal years ended June 30, 2013 and 2012. Please read it in conjunction with the Program's financial statements, which begin on page 10. The Oklahoma Water Resources Board (the "Board") administers the Program.

Program Highlights

- During FY 2013, ten (10) construction loan commitments totaling approximately \$50.8 million were made to protect, maintain and improve waters of the State towards the "fishable/swimmable" goals of the Clean Water Act.
- During FY 2013, the Program saw eleven (11) projects begin construction and twenty-five (25) projects complete construction and initiate operations.
- The Program made binding commitments for three (3) new construction loans and two (2) refinancing loans, totaling approximately \$23.2 million, for communities discharging to priority stream segments identified as threatened or impaired on the Impaired Waterbodies List (Section 303(d)) of Oklahoma's Integrated Water Quality Assessment Report.
- Nine (9) of ten (10) projects funded were proposed to assist Oklahoma communities to attain compliance with the enforceable permit requirements of the Clean Water Act in place to protect the water quality of receiving streams and lakes.

Financial Highlights

- The Program experienced a net decrease in the number of outstanding loans in FY 2013. At June 30, 2013 there were 191 outstanding loans with a principal balance of \$441,684,544. At June 30, 2012 the Program had 195 loans with a balance of \$396,110,792.
- Ending Program net position increased from \$303,790,698 to \$316,299,026 between FY 2012 and FY 2013 of which \$38,261,162 is restricted for debt service. Ending Program net position increased from \$282,544,600 to \$303,790,698 between FY 2011 and FY 2012 of which \$42,512,086 is restricted for debt service.

Using This Annual Report

This annual report is presented in a format that substantially meets the presentation requirements of the Governmental Accounting Standards Board (GASB) in accordance with generally accepted accounting principles. The Program is accounted for and presented similar to a special-purpose government engaged solely in business-type activities.

(Unaudited. See accompanying auditor's report.)

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The financial statements for the Program are presented after the Management's Discussion and Analysis in this annual report and then followed by the footnotes in this order:

- **Management's Discussion and Analysis** – that provides useful analysis that facilitates a better understanding of the Program's financial condition and changes therein.
- **Basic Financial Statements**
 - Statements of Net Position
 - Statements of Revenues, Expenses and Changes in Net Position
 - Statements of Cash Flows
- **Footnotes** - that elaborate on the accounting principles used in the preparation of the financial statements and further explain financial statement elements.

A Financial Analysis of the Program

One of the most frequently asked questions about the Program's finances is, "Has the overall financial condition improved, declined or remained steady over the past year?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Program as a whole and about its activities in a way that helps answer this question. The following tables present a condensed comparative presentation of net assets and changes therein.

Oklahoma Water Resources Board CWSRF Loan Account Program Net Position			
	Business-Type Activities		
	June 30		
	2013	Restated, 2012	Restated, 2011
Current assets	\$ 134,470,154	\$ 66,730,105	\$ 120,181,477
Non-current assets	456,444,283	422,142,288	358,598,714
Total assets	590,914,437	488,872,393	478,780,191
Current liabilities	14,614,282	12,798,125	12,414,539
Non-current liabilities	260,001,129	172,283,570	183,821,052
Total liabilities	274,615,411	185,081,695	196,235,591
Net position			
Restricted	38,261,162	42,512,086	43,065,369
Unrestricted	278,037,864	261,278,612	239,479,231
Total net position	\$ 316,299,026	\$ 303,790,698	\$ 282,544,600

The increase in total assets is attributable to the issuance of new loans and the increase in investments from long-term debt proceeds not spent. The increase in non-current liabilities in fiscal year 2013 is directly attributable to the issuance of \$86,505,000 in revenue bonds.

(Unaudited. See accompanying auditor's report.)

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Oklahoma Water Resources Board
CWSRF Loan Account Program
Revenues, Expenses, and Changes in Net Position

	Business-Type Activities		
	Years Ended June 30,		
	<u>2013</u>	<u>Restated, 2012</u>	<u>Restated, 2011</u>
Revenues			
Loan program income, net	\$ 9,260,511	\$ 7,728,248	\$ 5,900,679
Federal grants	-	-	273,022
Investment interest income	2,364,964	4,264,024	2,717,568
Total revenues	11,625,475	11,992,272	8,891,269
Expenses			
Trustee fees	30,758	23,434	15,955
Administration expenses	67,063	32,993	846,532
Interest expense	9,251,787	7,724,254	5,162,409
Bond issuance costs	579,099	-	-
Total expenses	9,928,707	7,780,681	6,024,896
 Net Income before transfers	 1,696,768	 4,211,591	 2,866,373
 Federal grants	 14,020,727	 25,145,121	 29,661,879
Federal grant principal forgiveness	(3,236,354)	(5,160,884)	(6,435,220)
Transfers from other programs	27,187	50,270	12,816
Transfers to other programs	-	(3,000,000)	-
Increase in net position	12,508,328	21,246,098	26,105,848
 Total net position - beginning	 303,790,698	 282,544,600	 256,438,752
 Total net position - ending	 \$ 316,299,026	 \$ 303,790,698	 \$ 282,544,600

The decrease in Federal Grant Revenue in 2013 is attributable to the ending of grant funds related to the American Reinvestment Recovery Act. The Program received funds to provide for additional subsidization to Oklahoma Borrowers for projects which met provisions of EPA's appropriations. OWRB provided \$3,236,354 in principal forgiveness to Borrowers in FY 13 compared to \$5,160,884 in FY 12. In FY13 and FY12 OWRB received no administrative fee related to the program. In addition, the Program received \$10,784,373 in net Federal Capitalization Grants in FY 2013 compared to \$19,984,237 in FY 2012.

(Unaudited. See accompanying auditor's report.)

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The OWRB is authorized by the EPA to transfer up to 33% of the Drinking Water Federal Capitalization Grants from the Fund. During 2012, management elected to transfer \$3,000,000 to the Drinking Water State Revolving Fund Loan program, but did not elect this option in 2013 or 2011. These transfers are included in Transfers to other programs.

Long- Term Debt

At year-end, the Program had \$245,465,000 in long-term debt outstanding, net of unamortized premium, which represents a \$75,745,000 or 44.6% increase from June 30, 2012 to June 30, 2013. Debt decreased \$10,075,000, or 5.6%, from 2011 to 2012. The Program's changes in long-term debt by type of debt are as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Beginning balances:			
2004 Serial bonds due April 1, 2014 to April 1, 2026, interest at 3.50% to 5.25%	\$ 88,935,000	\$ 94,795,000	\$ 100,435,000
2011 Serial bonds due April 1, 2014 to April 1, 2031, interest at 4.0% to 5.0%	80,785,000	85,000,000	85,000,000
Unamortized premium	13,323,570	14,101,052	14,518,095
	<u>\$ 183,043,570</u>	<u>\$ 193,896,052</u>	<u>\$ 199,953,095</u>
Add: 2012 Serial bonds due April 1, 2014 to April 1, 2033, interest at 2.00% to 5.00%	86,505,000	-	-
Add: 2012 Bond premium	14,172,391	-	-
Less: debt principal repayments	(10,760,000)	(10,075,000)	(5,640,000)
Less: current amortization of premium	(1,224,832)	(777,482)	(417,043)
Ending balances	<u>\$ 271,736,129</u>	<u>\$ 183,043,570</u>	<u>\$ 193,896,052</u>
Amounts due in one year	11,735,000	10,760,000	10,075,000

See Note 6 to the financial statements for more detailed information on the Program's long-term debt and changes therein.

Economic Factors and Next Year's Outlook

As a result of the widespread need for wastewater financing and efforts by the OWRB to implement a "lower than market rate" loan program, we continue to receive an overwhelming response from communities across the state requesting their projects be added to the five-year CWSRF Project Priority List. To date, communities have made requests for seventeen (17) construction and refinancing projects in FY 2014 totaling over \$151 million. An additional \$178 million in projects has been requested through 2018.

Contacting the Program's Financial Management

This financial report is designed to provide the Board's accountability of the Program. If you have questions about this report or need additional financial information, contact the Financial Assistance Division of the Oklahoma Water Resources Board at 3800 N. Classen Blvd, Oklahoma City, OK 73118.

(Unaudited. See accompanying auditor's report.)

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BASIC FINANCIAL STATEMENTS

OKLAHOMA WATER RESOURCES BOARD
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Statements of Net Position – June 30, 2013 and 2012

	<u>2013</u>	<u>Restated, 2012</u>
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$27,115,141	\$28,325,238
Investments	74,148,857	11,370,758
Loans receivable	30,300,839	23,989,260
Due from other programs	500	266,837
Interest receivable:		
Loans receivable	2,671,014	2,507,564
Other interest receivable	233,803	270,448
Total current assets	<u>134,470,154</u>	<u>66,730,105</u>
Noncurrent Assets:		
Loans receivable, net of current portion and allowance for uncollectible loans of \$79,286 in 2013 and \$319,726 in 2012	411,383,705	372,121,532
Restricted Investments	38,261,162	42,512,086
Investments	6,799,416	7,508,670
Total noncurrent assets	<u>456,444,283</u>	<u>422,142,288</u>
Total assets	<u>590,914,437</u>	<u>488,872,393</u>
LIABILITIES:		
Current Liabilities:		
Accrued interest payable	2,870,994	2,028,675
Current maturities of long-term debt	11,735,000	10,760,000
Other accrued liabilities	8,288	5,731
Due to other programs	-	3,719
Total current liabilities	<u>14,614,282</u>	<u>12,798,125</u>
Noncurrent liabilities:		
Long-term debt, less current maturities and plus unamortized premium	260,001,129	172,283,570
Total noncurrent liabilities	<u>260,001,129</u>	<u>172,283,570</u>
Total liabilities	<u>274,615,411</u>	<u>185,081,695</u>
NET POSITION:		
Restricted for debt service	38,261,162	42,512,086
Unrestricted	278,037,864	261,278,612
Total net position	<u>\$316,299,026</u>	<u>\$303,790,698</u>

See accompanying notes to the basic financial statements.

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Statements of Revenues, Expenses and Changes in Net Position – Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>Restated, 2012</u>
OPERATING REVENUES:		
Loan program income (net of bad debt recovery of \$240,441 in 2013 and bad debt expense of \$261,932 in 2012)	\$9,260,511	\$7,728,248
Total operating revenues	<u>9,260,511</u>	<u>7,728,248</u>
OPERATING EXPENSES:		
Trustee fees	30,758	23,434
Administration expenses	67,063	32,993
Interest expense	9,251,787	7,724,254
Bond issuance costs	579,099	-
Total operating expenses	<u>9,928,707</u>	<u>7,780,681</u>
OPERATING INCOME (LOSS)	(668,196)	(52,433)
NON-OPERATING REVENUES (EXPENSES):		
Federal grants and contracts	14,020,727	25,145,121
Federal grant principal forgiveness	(3,236,354)	(5,160,884)
Interest Income:		
Invested cash balances	252,183	853,090
Short-term investments	54,938	159,455
Long-term investments	2,347,097	2,209,109
Gain/(Loss) on Investments	<u>(289,254)</u>	<u>1,042,370</u>
Total non-operating revenues	<u>13,149,337</u>	<u>24,248,261</u>
Net income before transfers	12,481,141	24,195,828
Transfers in - Clean Water Revolving Fund Loan Administrative Fund	27,187	50,270
Transfers out - Drinking Fund Revolving Fund Loan Program	<u>-</u>	<u>(3,000,000)</u>
Change in net position	12,508,328	21,246,098
Total net position - beginning	303,790,698	282,544,600
Total net position - ending	<u><u>\$316,299,026</u></u>	<u><u>\$303,790,698</u></u>

See accompanying notes to the basic financial statements.

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Statements of Cash Flows – Years Ended June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Collections of interest on loans to local governmental units	\$8,856,620	\$6,967,509
Payments to other suppliers	(95,264)	(132,632)
Payments to other programs	(500)	-
Payments from other programs	263,118	(304,620)
Interest paid on debt	(9,634,300)	(8,422,325)
Net Cash Provided by (Used in) Operating Activities	(610,326)	(1,892,068)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in - Clean Water Revolving Fund Loan Administrative Fund	27,187	50,270
Transfers out - Drinking Fund Revolving Fund Loan Program	-	(3,000,000)
Federal grant receipts	14,020,727	25,145,121
Bond issue proceeds	86,505,000	-
Bond issue cost	(579,099)	-
Premium on bonds issued	14,172,391	-
Principal paid on bonds/notes	(10,760,000)	(10,075,000)
Net Cash Provided by Noncapital Financing Activities	103,386,206	12,120,391
CASH FLOWS FROM INVESTING ACTIVITIES		
Loans to local governmental units	(74,774,679)	(94,575,809)
Collections of principal on loans to local governmental units	22,968,660	21,375,648
Collections of principal on loans to local governmental units from federal grant proceeds	3,236,354	5,160,884
Interest on invested cash balances	271,349	865,960
Interest on short-term investments	54,626	159,907
Interest on long-term investments	2,075,634	3,265,419
Purchase (sale) of long-term investments	4,960,178	894,631
Sale (purchase) of short-term investments	(62,778,099)	48,647,045
Net Cash Provided by (Used in) Investing Activities	(103,985,977)	(14,206,315)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,210,097)	(3,977,992)
Balances - beginning of the year	28,325,238	32,303,230
Balances - end of the year	\$27,115,141	\$28,325,238
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	(\$668,196)	(\$52,433)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Amortization of note issuance discounts (premiums)	(1,224,832)	(777,482)
Bond issuance costs	579,099	-
Allowance for uncollectible loans	(240,441)	(261,932)
Change in assets and liabilities:		
Decrease (Increase) in due from other programs	266,337	-
Decrease (Increase) in interest receivable	(163,450)	(498,807)
Increase (Decrease) in other current liabilities	2,537	(76,205)
Increase (Decrease) in accrued interest payable	842,319	79,411
Increase (Decrease) in due to other funds	(3,719)	(304,620)
Net Cash Provided by (Used in) Operating Activities	(\$610,326)	(\$1,892,068)
Non-cash Transactions:		
Recovery of long-term receivable	\$240,441	-
Total Non Cash Transactions	\$240,441	-

See accompanying notes to the basic financial statements.

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Footnotes to the Basic Financial Statements:

1. Summary of Significant Accounting Policies

Reporting Entity

The Oklahoma Water Resources Board/Oklahoma Wastewater Facility Construction Revolving Loan Account Program (the "Program") was created pursuant to the 1987 Amendments (P.L. 100-4) to the "Clean Water Act" (P.L. 92-500) to provide a perpetual fund for financing the construction of wastewater treatment facilities for municipalities and other public entities. The Program funds loans with Federal grants, State matching funds, principal repayments, bond proceeds, and interest received on loans and invested cash balances. State matching funds are provided through State appropriations or through the issuance of notes payable.

Administrative costs of the Oklahoma Water Resources Board ("OWRB") allocated to the Program may be reimbursed by the Program, limited to 4% of total cumulative Federal contributions or through fees assessed to each participating borrower at the rate of one-half of one percent per annum of the amount of each borrower's loan balance outstanding, and loan application fees. The fees paid by the participating borrowers are remitted directly to OWRB and, therefore, are not included in the accompanying financial statements.

The significant accounting principles and practices followed by the Program are presented below:

Basis of Accounting and Measurement Focus

The Program is accounted for and presented similar to a special-purpose government engaged solely in business type activities.

The Program uses the accrual basis of accounting whereby expenses are recognized when the liability is incurred and revenues are recognized when earned.

The Program uses the economic resources measurement focus where all assets, liabilities, net position, revenues, expenses and transfers relating to the Program and net income and capital maintenance are measured.

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB").

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1. Summary of Significant Accounting Policies (cont'd)

Loans Receivable and Allowance for Uncollectible Loans

Loans receivable are stated at the amount of unpaid principal reduced by an allowance for uncollectible loans. The allowance for uncollectible loans is established through a provision for bad debts that is charged to expense. Loans receivable are charged against the allowance for uncollectible loans when management believes that the collectability of the principal is unlikely. The allowance is an amount that management believes will be adequate to absorb possible losses on existing loans receivable that may become uncollectible, based on evaluations of the collectability of loans receivable. The evaluations take into consideration such factors as the borrowers' debt coverage ratio, review of specific problem loans receivable and current economic conditions that may affect the borrowers' ability to pay. Accrual of interest is discontinued on a loan receivable when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful.

Federal Letter of Credit Payments Receivable

Funding from Federal grants, which have been approved, is provided through a Federal letter of credit. Timing of deposits is specified by the terms of the grant. The Program draws on the available funds as necessary to fund loans. Letter of Credit Payment Receivables are recorded only when the required State match has been met and actual requests for loan draws have been received by the Program. When these events have occurred, the Program records the receivable and federal revenue for the amount of the loan request.

Federal Grant Income

Federal grant income represents contributions from the Environmental Protection Agency ("EPA") of the U.S. Federal Government. In the unlikely circumstance of termination of the Program, all Federal and State contributions are refundable to the respective governments upon liquidation of the Program's assets.

During FY 2013 and 2012, the program received federal grant income under the American Recovery and Reinvestment Act. Proceeds under this program were used to forgive principal for Borrowers meeting the requirements of the Act. For FY 2013 and 2012, \$2,391,727 and \$1,897,545, respectively, was provided for principal forgiveness under the program.

Bond Issue Premium

The Program's State Revolving Fund Revenue Bonds, Series 2004 were initially sold at a premium of \$7,161,445. The bond premium is being amortized over the remaining life of the bonds. Net amortization expense of \$319,082 was recorded in 2013 and 2012 and is included in interest expense in the accompanying statements of revenues, expenses, and changes in net position.

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1. Summary of Significant Accounting Policies (cont'd)

The Program's State Revolving Fund Revenue Bonds, Series 2011 were initially sold at a premium of \$9,167,991. The bond premium is being amortized over the remaining life of the bonds. Net amortization expense of \$458,400 was recorded in 2013 and 2012 and is included in interest expense in the accompanying statements of revenues, expenses, and changes in net position.

The Program's State Revolving Fund Revenue Bonds, Series 2012 were initially sold at a premium of \$14,172,391. The bond premium is being amortized over the remaining life of the bonds. Net amortization expense of \$447,350 was recorded in 2013 and is included in interest expense in the accompanying statements of revenues, expenses, and changes in net position.

Cash and Cash Equivalents

The Program considers all highly liquid debt instruments purchased with an original maturity of three months or less and money market funds to be cash equivalents.

Investments

Included in the total is \$38,261,162, which has been deposited into a Debt Service Reserve fund, pursuant to the bond indenture (See Note 5).

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Cash Deposits and Investment Risk

Cash of \$27,108,289 and \$28,322,000 at June 30, 2013 and 2012 respectively, was on deposit in the State Treasurer's office's internal investment pool – *OK Invest*. In addition to the \$27,108,289 and \$28,322,000, there is a cash balance of \$6,852 and \$3,238 on deposit with BancFirst at the end of June 30, 2013 and 2012. Short-term investments of \$74,148,857 and \$11,370,758 at June 30, 2013 and 2012, respectively, were on deposit with the Program's trustee. The deposits are invested in the *Federated Treasury Obligations and the Goldman Sachs Financial SQ Treasury Obligation Fund Admin* mutual funds.

Investment Interest Rate Risk – the Program does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates as it relates to funds not directly associated with bond issue proceeds.

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2. Cash Deposits and Investment Risk (cont'd)

Investment Credit Risk-Non Debt Proceeds – for non-debt proceeds, the Program has no investment policy that limits its investment choices other than the limitation of state law imposed on the State Treasurer as follows:

- a. U.S. Treasury Bills, Notes and Bonds and U.S. Government Agency Securities with certain ratings and maturity limitations.
- b. Collateralized or insured certificates of deposit and other evidences of deposit issued by a bank, savings bank, savings and loan association or credit union located in the state.
- c. With certain ratings and maturity limitations, negotiable certificates of deposit, bankers acceptances and commercial paper.
- d. Obligations of state and local governments, including obligations of Oklahoma state public trusts, with certain ratings and maturity limitations.
- e. Collateralized repurchase agreements tri-party repurchase agreements.
- f. Money market mutual funds and short term bond funds regulated by the SEC and in which investments consist of obligations of the U.S. Government and its agencies and instrumentalities and repurchase agreements collateralized by obligations of the U.S. Government and its agencies and instrumentalities.

The State Treasurer has determined that current holdings in OK Invest should be limited to obligations of the United States government, its agencies and instrumentalities, tri-party repurchase agreements collateralized at 102% with the collateral held by a third party in the name of the Oklahoma State Treasurer and money market mutual funds which either directly or indirectly invest in U.S. Treasury and/or Agency securities and repurchase agreements related to such securities. OK Invest is not insured or guaranteed by the State of Oklahoma, the Federal Deposit Insurance Corporation or any other government agency.

Investment Credit Risk - Debt Proceeds – for debt proceeds, the bond indenture provides for restrictions on the investment choices of the Program as follows:

- a. Obligations of the United States Government, its agencies and instrumentalities.
- b. Collateralized or insured certificates of deposit and other evidences of deposit at banks, savings banks, savings and loan associations or credit unions located in the State of Oklahoma.
- c. Money market funds regulated by the Securities and Exchange Commission and which investments consist of those items specified in (a) and (b) above.
- d. Investment agreements with entities maintaining a rating in the top two categories by a nationally recognized municipal bond rating agency.

At June 30, 2013 and 2012, the Program's investments in obligations not directly guaranteed by the U.S. Government and investments in money market mutual funds were rated as follows:

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2. Cash Deposits and Investment Risk (cont'd)

<u>Type</u>	<u>Maturities</u>	<u>Credit Rating</u>	<u>Carrying Value</u>	
			<u>2013</u>	<u>2012</u>
OK Invest (State Treasurer)	Less than 2 years	Not rated.	\$ 27,108,289	\$ 28,322,000
Federated Treasury Obligations Fund	16 days	AAAm	8,235,249	11,370,758
Goldman Sachs Financial SQ Treasury Obligation Fund Admin		AAAm	65,913,524	-
City of Lawton Municipal Bond	10/1/2028	Not rated.	6,799,416	7,508,670
Reserve Fund	4/1/2027	AAAm	37,563,796	40,403,171
Revenue Fund	4/1/2027	AAAm	697,366	2,108,915
Total			<u>\$ 146,317,640</u>	<u>\$ 89,713,514</u>

Concentration of Investment Credit Risk – neither the Program nor the bond indenture place any limit on the amount the Program may invest in any one issuer. The Program has the following concentration of credit risk at June 30, 2013: 26.51% or \$38,261,162 is invested in a guaranteed investment agreement with Transamerica Occidental Life Insurance Company, 5.63% or \$8,235,249 is invested in Federated Treasury money market funds, 45.05% or \$65,913,524 is invested in Goldman Sachs Financial SQ Treasury Obligation Admin Fund, and 18.53% or \$27,108,289 is invested in OK Invest.

At June 30, 2012, the Program has the following concentration of credit risk at June 30, 2012: 47.39% or \$42,512,086 is invested in a guaranteed investment agreement with Transamerica Occidental Life Insurance Company, 12.67% or \$11,370,758 is invested in Federated Treasury money market funds, and 31.57% or \$28,322,000 is invested in OK Invest.

3. Federal Letter of Credit Payments Receivable

A schedule of activity in the Federal letter of credit payments receivable account, as reflected in the accompanying statements of net assets, for the years ended June 30, 2013 and 2012, is as follows:

Balance, June 30, 2011	\$ -
Federal revenue recognized	25,145,121
Federal funds withdrawn	<u>(25,145,121)</u>
Balance, June 30, 2012	\$ -
Federal revenue recognized	14,020,727
Federal funds withdrawn	<u>(14,020,727)</u>
Balance, June 30, 2013	<u>\$ -</u>

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3. Federal Letter of Credit Payments Receivable (cont'd)

Of the Federal letter of credit payments withdrawn during the fiscal year ended June 30, 2013, \$10,784,373 was used to provide loans to borrowers, \$3,236,354 was used for debt forgiveness and no funds were used for administrative expenses. As of June 30, 2013, the Program has no remaining EPA grant funding available.

Of the Federal letter of credit payments withdrawn during the fiscal year ended June 30, 2012, \$19,984,237 was used to provide loans to borrowers, \$5,160,884 was used for debt forgiveness and no funds were used for administrative expenses. During FY-2012 \$80,573 of the 4% administration fee available to the Program was used to pay for administration costs of the Program. As of June 30, 2012, the Program has EPA grant funding available for its use totaling \$2,601,727.

4. Loans Receivable

The Program originates direct loans with communities utilizing several sources of funds including existing loan principal repayments, interest earnings, federal grants and bond funds. These loans are collateralized by various revenue sources including, but not limited to, user charges and sales taxes of the borrowers. These loans are made at 60% of the current market interest rate. At June 30, 2013 and 2012, there were \$405,598,063 and \$354,547,841, respectively, in loans outstanding. As of June 30, 2013, the Program had unexpended commitments to borrowers for additional loan funds in the amount of \$117,483,384.

Prior to FY-2007, the Board originated interim construction loans that would upon completion provide the borrowers the opportunity to refinance 40% of their outstanding interim loan balance on a long-term basis without interest. Such loans were collateralized by various revenue sources including, but not limited to, user charges and sales taxes of the borrowers. To avail themselves of this opportunity, the borrowers obtained funding for the remaining 60% of the outstanding loan from sources outside the Program. This is no longer an option for the Program. At June 30, 2013 and 2012, there were \$36,165,767 and \$41,562,951, respectively, in long-term interest-free loans outstanding.

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4. Loans Receivable (cont'd)

A schedule of activity of loans receivable for the years ended June 30, 2013 and 2012, is as follows:

Net Balance, June 30, 2011	\$ 328,333,447
Loan disbursements	94,575,809
Principal repayments	<u>(26,536,532)</u>
	396,372,724
Change in allowance for uncollectible loans	<u>(261,932)</u>
Net Balance, June 30, 2012	\$ 396,110,792
Loan disbursements	74,774,679
Principal repayments	<u>(29,441,368)</u>
	441,444,103
Change in allowance for uncollectible loans	<u>240,441</u>
Net Balance, June 30, 2013	<u><u>\$ 441,684,544</u></u>

5. Restricted Investments

A description of the restricted investments held at June 30, 2013 and 2012, is as follows:

	<u>2013</u>	<u>2012</u>
Guaranteed investment with Transamerica Occidental Life Insurance Co. pursuant to an investment agreement, 4.61% maturing April 1, 2027 (restricted for debt service)	<u>38,261,162</u>	<u>42,512,086</u>
Total restricted investments	<u><u>\$38,261,162</u></u>	<u><u>\$42,512,086</u></u>

The agreement with Transamerica Occidental Life Insurance Co./Transamerica Life Insurance and Annuity Co. ("Transamerica"), are uninsured and non-collateralized so long as Transamerica maintains certain specified credit ratings. If these credit ratings are not maintained, Transamerica is required to collateralize the investment agreement sufficient to maintain an S & P or Moody's rating of "AA-" or "Aa3", respectively, on the contract. The S & P credit rating for Transamerica at June 30, 2013 was AA-. The investment is carried at cost, which approximates fair value.

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6. Long-Term Debt

Bonds Payable

On October 26, 2004, the Program issued State Revolving Fund Revenue Bonds, Series 2004 in the amount of \$121,075,000. These bonds were issued to provide low interest cost financing for Oklahoma Local governmental entities for acquiring, constructing, or improving their wastewater treatment systems and to enable the Program to meet the State matching requirements in order to obtain Federal grants. The bonds represent a portion of the overall \$204,480,000 Revolving Fund Revenue Bonds, Series 2004 (Master Trust) issued by the Oklahoma Water Resources Board. The balance of the bonds and related debt issue costs, bond premium, etc. were allocated proportionately to the Drinking Water State Revolving Fund Loan Program for similar purposes related to its drinking water treatment facilities projects.

On April 13, 2011, the Program issued State Revolving Fund Revenue Bonds, Series 2011A in the amount of \$85,000,000. These bonds were issued to provide low interest cost financing for Oklahoma Local governmental entities for acquiring, constructing, or improving their wastewater treatment systems and to enable the Program to meet the State matching requirements in order to obtain Federal grants.

On October 23, 2012, the Program issued State Revolving Fund Revenue Bonds, Series 2011A in the amount of \$86,505,000. These bonds were issued to provide low interest cost financing for Oklahoma Local governmental entities for acquiring, constructing, or improving their wastewater treatment systems and to enable the Program to meet the State matching requirements in order to obtain Federal grants.

Future debt service payments required by the Program's outstanding bonds as of June 30, 2013 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$11,735,000	\$11,483,976	\$23,218,976
2015	13,635,000	10,968,688	24,603,688
2016	14,085,000	10,328,238	24,413,238
2017	14,275,000	9,697,278	23,972,278
2018	13,795,000	8,983,528	22,778,528
2019-2023	70,380,000	34,783,192	105,163,192
2024-2028	60,850,000	18,001,500	78,851,500
2029-2033	46,710,000	5,343,714	52,053,714
Total	\$245,465,000	\$109,590,114	\$355,055,114

In addition to their normal scheduled maturity dates as shown above, the bonds may also be redeemed at the option of the Board, in whole or in part, at such dates and for such prices, plus accrued interest as are set forth in the bond indenture.

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6. Long-Term Debt (cont'd)

In order for the interest on the Program's Series 2004, 2011, and 2012 bonds to be tax-exempt, the Board must comply with certain provisions of the Internal Revenue Code, as amended. One provision requires that the arbitrage earnings (defined as the excess of the amount earned on all nonpurpose investments over the amount which would have been earned if the nonpurpose investments were invested at a rate equal to the bond yield) be rebated to the Internal Revenue Service. This rebate is payable at the end of each five years during the term of the issue. Management of the Program believes that any arbitrage liability, which exists at June 30, 2013, is immaterial.

Pursuant to the 2004 Master Trust Agreement, the Clean Water State Revolving Fund Loan Program bonds share in an aggregate debt service reserve with the Drinking Water State Revolving Fund Loan Program bonds. At June 30, 2013, the aggregate debt service reserves totaled \$63,364,876 of which \$37,563,796 is reflected in the accompanying statements of net position.

Long-term debt outstanding at June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Beginning balances:		
2004 Serial bonds due April 1, 2014 to April 1, 2026, interest at 3.50% to 5.25%	\$ 88,935,000	\$ 94,795,000
2011 Serial bonds due April 1, 2014 to April 1, 2031, interest at 4.0% to 5.0%	80,785,000	85,000,000
Unamortized premium	13,323,570	14,101,052
	<u>\$ 183,043,570</u>	<u>\$ 193,896,052</u>
Add: 2012 Serial bonds due April 1, 2014 to April 1, 2033, interest at 2.00% to 5.00%	86,505,000	
Add: 2012 Bond premium	14,172,391	
Less: debt principal repayments	(10,760,000)	(10,075,000)
Less: current amortization of premium	(1,224,832)	(777,482)
Ending balances	<u>\$ 271,736,129</u>	<u>\$ 183,043,570</u>
Amounts due in one year	11,735,000	10,760,000

7. Binding Commitments

During the year ended June 30, 2013, the OWRB voted to approve funding of various borrower loan applications through the Program. These binding commitments will be funded by the Program provided that a loan agreement and promissory note are executed within one year from the date of original approval unless an extension is granted by the OWRB. Loan applications approved by the OWRB for which a loan agreement and promissory note have not been executed totaled zero at June 30, 2013. All loans that had been approved were closed by June 30, 2013.

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8. Reclassifications

Certain prior year amounts have been reclassified for comparative purposes to conform to the current year presentation. Due to the implementation of new accounting standards, bond issuance costs are now expensed when incurred instead of being capitalized and amortized over the life the bond issue. Prior years have been restated to expense unamortized bond issuance costs.

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INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS*

To the Members of the
Oklahoma Water Resources Board

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Oklahoma Water Resources Board/Oklahoma Clean Water State Revolving Fund Loan Account Program (the "Program") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, and have issued our report thereon dated September 23, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Program's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Program's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Arlidge & Associates, P.C.

Edmond, Oklahoma
September 23, 2013